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California state budget balanced by overlooking important liabilities

The following editorial was written by California State Board of Equalization Vice Chair Michelle Steel.

Ignoring hundreds of billions of dollars in unfunded retirement liabilities, the condition of the California economy, and the burden that government intervention places on working families and businesses, Gov. Jerry Brown recently released what he called a balanced budget for 2013-14.

Even before he spoke, headlines announced that Gov. Brown had erased the state's deficit, which had been projected by the Legislative Analyst at $1.9 billion. It took the finance director to explain that the deficit had been wiped away through the same budgetary tricks that have plagued Sacramento in recent years.

A few examples: The nonpartisan Legislative Analyst's Office presented cautious projections on revenue expected from ending local redevelopment agencies; the Brown administration increased those projections. The LAO said the state needed to return more in delayed payments to special funds; the Brown administration said it would return less. The LAO said half of new corporate tax revenue from Proposition 39 would not be included in the minimum funding formula for schools; the Brown administration said it would be included.

The Legislative Analyst later said the administration "assumes a different set of assumptions."

Gov. Brown said it is his job to practice fiscal discipline. He said this while presenting a budget that increases spending by 5 percent over the current year. The new plan also includes $25 billion in additional spending over four years. It also includes new revenue from two taxes on medical care, an onerous new tax on lumber products and the "temporary" increases in sales and income taxes approved by voters in November.

The governor's budget presents many ways in which to spend taxpayer dollars. But it is light on ways to reduce the plight of California's taxpayers. He seems, again, to have forgotten where the money comes from and how it is created.

Government can demand as much money as it wishes from taxpayers, but it does so at its own peril. That's because taxpayer dollars don't grow on trees, and businesses are not static revenue-producing machines.

Tax dollars are taken from the earnings of people who create products or render services for other people in return for payment. Business owners are people who risk their futures to create products or services for prospective customers who may, or may not, decide to buy.

This process creates jobs and wealth through the creative energy of individuals willing to take risks to start new enterprises, to work hard and to make choices as consumers when purchasing products and services. It also creates tax revenue, because the more people are involved in working, creating, and buying products and services, the more money flows in the economy.

However, taking tax dollars out of the economic cycle – away from the entrepreneurs who would risk it to start new businesses, and the employees who would use it to buy products to support their families – makes it harder to start a business, or hire a worker or buy a product.

Adding new taxes on top of already-high taxes, and increasing regulations that force businesses and employees to spend time and money on compliance instead of on their work, makes work less profitable and less desirable.

The governor didn't seem to recognize any of this in presenting his budget. But it's well past time that our policymakers start paying attention.